# Market Analysis

The worldwide market for musical instruments is a very mature, very competitive market. Overall market growth is estimated between 6% and 8% per year, in both units and value. Distribution patterns vary a great deal by segment, from the mass retail distribution of the low end to the specialized distribution of the high-quality and high-price segments. Encore operates in a narrow part of the market, instruments and equipment sold to professionals who insist on the highest-quality sound. Most of our customers are concert musicians.

# Industry Analysis and Update

The market for musical instruments divides easily into several segments. Several market segments are relevant, and for this discussion we define the segments in which Encore Musical Instruments operates:

Customers. Customers range from children learning how to play to professional musicians in concert settings. However, Encore Musical Instruments sells almost exclusively to professional musicians.

1. Instrument or type of instrument. Encore Musical Instruments manufactures and distributes both acoustic and electric guitars, electric keyboards, speakers, electronic music equipment, and related accessories.

2. Type-of-music segments. At the high end of the market, Encore has an excellent reputation among musicians dedicated to more traditional music. One of our challenges is to manage the transition to new technologies without losing our carefully guarded position with the devotees of traditional music. So far, we have managed to create a model for that transition with our keyboard line, which is very respected among the better concert musicians.

3. The growth segments of the market are highly competitive, technology dependent, and distribution dependent. They include a vast range of electronics-dependent products such as keyboards, guitars, sound amplification equipment, and synthesizers. Of the markets for low-end traditional instruments, the piano and organ markets are now completely tied to new electronic technologies, and markets for traditional band instruments are as dependent as ever on price-sensitive specialty retail distribution.

Encore Musical Instruments is presently focused on the traditional musical segments, a relatively mature industry driven mainly by brand recognition and reputation for quality. Unfortunately, this segment is threatened as professional music turns steadily towards increasing electronics. We look to manage this transition by offering new technologies for traditional music.

# Keys to On-Going Success

In the market for traditional high-quality musical instruments, the keys to success have not been significantly changed by new technology. They are not too different from what they have been for most of this century: product quality, reputation, and management.

# Product Quality

The target customer wants and usually *needs* the highest quality sound. Consistency and reliability are also very important. Longevity is a lesser factor, but still considered because of high price.

# Reputation—A New Formula

Professional musicians and very successful amateurs are often judged by the instruments they use. Newcomers to the instrument-making industry can be accepted when their product offers exceptional quality, but generally it takes time and tradition to compete in this market.

# Management Restructuring

While the industry focuses on quality and reputation, it still is threatened by technology, new competition, the general decline of traditional music, rising costs, and other difficult market forces. Survivors must maintain quality of product and reputation, without ever forgetting the basics of managing personnel, fixed costs, product costs, marketing expenses, and working capital.